

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF WEST DAVIESS COUNTY)
WATER DISTRICT FOR AN ADJUSTMENT OF)
RATES PURSUANT TO THE ALTERNATIVE) CASE NO. 2011-00459
RATE FILING PROCEDURE FOR SMALL)
UTILITIES)

ORDER

Pursuant to 807 KAR 5:076, West Daviess County Water District ("West Daviess District"), has applied for an adjustment of rates for water service. By this Order, the Commission establishes rates that will produce additional annual revenues of \$265,818, or 20.21 percent increase over normalized test-period revenues from rates of \$1,315,524. For a residential customer who consumes 5,000 gallons of water monthly, his or her monthly bill will increase from \$18.99 to \$23.65, or 24.5 percent.

West Daviess District, a water district organized pursuant to KRS Chapter 74, owns and operates facilities that distribute water to approximately 4,673 customers in Daviess County, Kentucky.¹ Its last general rate adjustment occurred in May 2000.²

On November 28, 2011, West Daviess District filed with the Commission its application for an adjustment of its rates for water service. It proposed rates that would

¹ Annual Report of West Daviess County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2010 at 5, 27.

² Case No. 99-269, *The Application of West Daviess County Water District for Rate Adjustment and New Tariff Rates* (Ky. PSC May 1, 2000). Since its last general rate adjustment, West Daviess District has adjusted its rates to reflect changes in the cost of purchased water six times. See, e.g. Case No. 2003-00113, *Purchased Water Adjustment of West Daviess County Water District* (Ky. PSC Apr. 15, 2003); Case No. 2005-00177, *Purchased Water Adjustment of West Daviess County Water District* (Ky. PSC May 23, 2005).

reportedly produce additional revenues from water sales of \$265,818, an increase of 20.21 percent over pro forma revenues from water sales. For a customer who purchased 5,000 gallons of water monthly, the proposed rates would increase his or her monthly bill from \$18.99 to \$23.65.

On January 30, 2012, Commission Staff issued a report of its findings and recommendations regarding the proposed rate and West Daviess District's operations during the test period. It found that, based upon West Daviess District's test-period operations, West Daviess District required total revenues of \$1,661,053 to meet its reasonable operating expenses and provide for reasonable equity growth. It further found that, to reach this level of revenue, West Daviess District required a rate adjustment to generate additional annual revenue of \$265,818 over normalized revenue from rates of \$1,315,524.

West Daviess District responded to the findings and recommendations contained in Commission Staff's report on February 2, 2012. It stated no objections to those findings and recommendations and further advised that that matter should be submitted to the Commission based upon the existing record. Pursuant to the Commission's Order of December 22, 2012, this matter stands submitted for decision.

Having considered the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. The findings and recommendations contained in Commission Staff's report are supported by the evidence of record, are reasonable, and should be adopted.

2. The calendar year ending December 31, 2010 should be used as the test period to determine the reasonableness of West Daviess District's existing and proposed rates.

3. Based upon pro forma test-period operations, West Daviess District's pro forma annual revenues are \$1,364,025.

4. Based upon pro forma test-period operations, West Daviess District's pro forma total operating expenses, after adjusting for known and measurable changes, are \$1,460,253.

5. Given that West Daviess District has no outstanding long-term debt, the use of an operating ratio³ to determine its total revenue requirement is appropriate.⁴

6. An operating ratio of 0.88 will permit West Daviess District to meet its reasonable operating expenses and provide for fair and reasonable equity growth and should be used to determine West Daviess District's total revenue requirements.

7. Applying an operating ratio of 0.88 to West Daviess District's pro forma total operating expenses of \$1,460,253 produces a total revenue requirement of \$1,659,378. After considering West Daviess District's interest expense and other income, West Daviess District requires \$1,581,342 of revenue from water sales, or \$265,818 more than its current rates produce.

8. West Daviess District's proposed rates, which are set forth in the Appendix to this Order, will produce revenues from water sales of \$1,581,342 and should be approved.

³ Operating Ratio is defined as the ratio of expenses, including depreciation and taxes, to gross revenues. It is illustrated by the following equation:

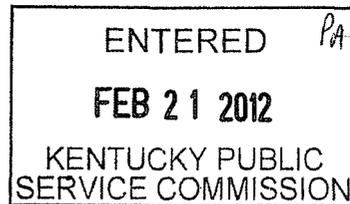
$$\text{Operating Ratio} = \frac{\text{Operating Expenses} + \text{Depreciation} + \text{Taxes}}{\text{Gross Revenues}}$$

⁴ See, e.g., Case No. 8468, *An Adjustment of the Rates of Plantation Hill Sewage Treatment Plant, Inc.* (Ky. PSC Jun. 25, 1982); 1 A.J.G. Priest, *Principles of Public Utility Regulation* (Michie 1969) 220-224.

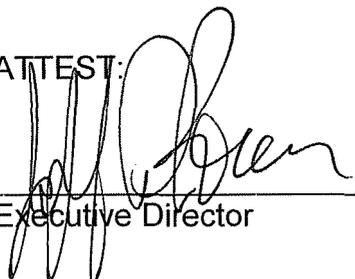
IT IS THEREFORE ORDERED that:

1. The findings and recommendations contained in Commission Staff's report are adopted and incorporated by reference into this Order as if fully set out herein.
2. The rates set forth in the Appendix to this Order are approved for water service that West Daviess District renders on and after the date of this Order.
3. Within 20 days of the date of this Order, West Daviess District shall file a revised tariff sheet with the Commission setting forth the rates approved in this Order.
4. The informal conference and hearing scheduled in this matter are cancelled.
5. This matter is closed and shall be removed from the Commission's docket.

By the Commission



ATTEST:



Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2011-00459 DATED FEB 21 2012

The following rates and charges are prescribed for the customers in the area served by West Daviess County Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

Monthly Customer Charge:

5/8"x3/4" Meter	\$ 3.25
1" Meter	\$ 4.55
1 1/2" Meter	\$ 5.85
2" Meter	\$ 9.43
3" Meter	\$35.75
4" Meter	\$45.50
6" Meter	\$68.25
8" Meter	\$94.25

Volumetric Rate:

First 20,000 gallons	\$4.08 per 1,000 gallons
Over 20,000 gallons	\$3.00 per 1,000 gallons
Wholesale Rate	\$2.42 per 1,000 gallons

Mr. Keith J Krampe
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